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The stakeholder audit is more widely used by private sector executives in formulating and assessing business strategy. But the stakeholder audit can be an equally effective management tool for those in the public sector.

The Stakeholder Audit Goes Public

Nancy C. Roberts
Paula J. King

The newly appointed head of a major government agency embarks on a challenging assignment: putting together a coherent management policy in which power and control of major management decisions are shared not only among those internal to the agency, but also with key external constituents, all of whom may have differing views on what should be done and how to do it.

Some experts argue that the challenge is similar whether the executive is in the public or the private sector. Public and private managers alike, they say, are subject to varying degrees of political pressure, and both must contend with market and governmental factors.

Others claim, however, that the public sector requires a unique management

approach. In the public sector, they point out, the task is to chart a course and define success without the benefit of such bottom-line figures as profit or market share, while legislators, executive leaders, and interest groups all vie for control over agency direction. According to this view, the unique challenge that public management executives face is the politics of public management: formulating and executing policy choices, and maintaining support for the agency's goals and those of its executives in the light of electoral politics and competing demands on its course of action.

One could argue the merits of both of these points of view, and possibly even attempt some reconciliation between them. This article, however, will take a more



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managerial approach. We will introduce a business technique called the stakeholder audit, which executives use in articulating the organizational mission and formulating organizational strategies. Our intention is to demonstrate how this tool can be useful to public as well as private sector managers. In fact, we contend that the audit is especially well suited to assist managers who are confronted with the *politics* of management—wherever it is practiced.

We will illustrate the steps and the process of a stakeholder audit, using as an ex-

ample an audit which was done for a state commissioner of education. A governor's first-term appointee and relative newcomer to state office, the commissioner was assigned to head a department of education and to promote excellence in the educational system. The audit was expected to help ease her transition into her new position, and to help her set the agency's direction.

Before we outline the steps of the education commissioner's audit and discuss the details of that particular audit, we will provide a short introduction to the concept of stakeholder management and describe how it is typically used. Frequently used in business to set corporate direction, stakeholder management provides the rationale for using the audit and illustrates its potential for public and private sector executives.

STAKEHOLDER MANAGEMENT

All strategic management models must address a number of basic questions. What is the mission of our organization (direction)? What strategies shall we use to accomplish this mission (strategy choice and formulation)? How should we allocate resources in order to implement our strategies (budgeting)? What structures and systems will enable us to carry out our strategies (implementation)? And how can we ensure that the organization is implementing our agreed-upon strategies (control and evaluation)?

Stakeholder management, as one of the models, focuses most particularly on the firm's need to take into account its relationship with specific stakeholder groups as it sets corporate direction and formulates its strategies. In his book *Strategic Management: A Stakeholder Approach*, published in 1984 by Pitman, Ed Freeman defines a stakeholder as "any group or individual who can affect or is affected by the achievement of an organiza-

tion's purpose." Freeman argues that the key to success in any business organization is the satisfaction of its key stakeholders. Without the support of these groups and individuals, businesses will not survive.

The stakeholder management model is like other strategic management models in that they pose similar questions, i.e., What do we stand for? What businesses are we in? How can we achieve our objectives? But only stakeholder management is relational: It requires that executives be proactive in their relationships with the external environment, and develop a willingness to enter voluntarily into negotiations or discussions with key groups. It is considered to be a failure of management responsibility, under stakeholder management, to have a solution imposed on the firm by outside intervention if effective negotiation could have avoided such a development. The ultimate goal of stakeholder management is to anticipate how stakeholder groups may affect the organization and then to avoid or prepare for the environmental jolts they can deliver.

STEPS IN STAKEHOLDER MANAGEMENT

There are four basic steps in stakeholder management. The first step is the identification of the stakeholders: groups and individuals who can affect and be affected by the achievement of the organization's purpose. This step usually begins with the construction of a "stakeholder map" of all these individuals and groups. A map for a typical American automobile manufacturer is shown in Exhibit 1.

Note that the map includes stakeholders who are external to the organization—such as the financial community, Congress, and government regulators—as well as internal stakeholders such as the employees. Note also the inclusion of groups who are

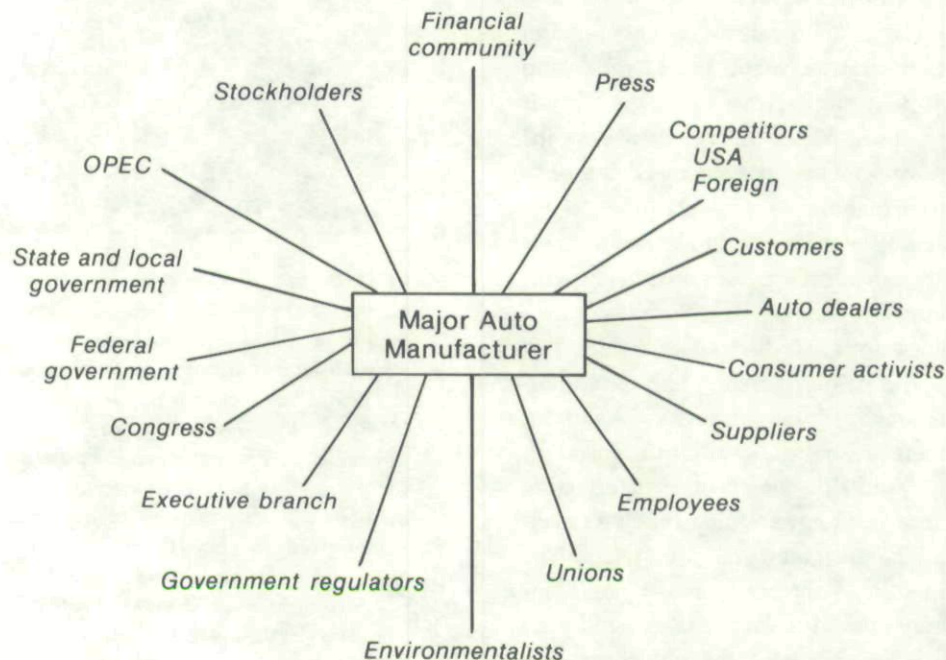


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potentially hostile to the organization, i.e., unions, consumer activists, competitors, and OPEC. They are included because stakeholders are any individuals or groups, whether internal or external, adversarial or not, that have the potential to "make a difference" to the organization. We should also point out that this map represents very general categories of stakeholders. Each category could be broken down into more specific groups. Government regulators might be further broken down into stakeholders such as EPA, OSHA, FTC, and so forth.

Determining the stakes for each stakeholder is the next step in stakeholder management. A stake is the claim on the or-

Exhibit 1
SAMPLE STAKEHOLDER MAP



ganization that each stakeholder has. The concept of a stake is based on the idea of one's having something to lose or gain in a given situation, and therefore the nature of the stake depends on the issue at hand. Thus the stake may be tangible (money, material resources) or intangible (time, prestige, self esteem), explicit or implicit. Moreover, a stake may be based on self-interest or on the collective good, and may be economic, political, social, or psychological in nature. In the above example of the automobile manufacturing firm, the consumer activists could be interested in the safety features of a new model, the environmentalists in the model's emission rates, the dealers in the pricing of the new model, and so on.

66 Once the stakeholder map has been drawn and each group's stakes identified, the

third step is taken: assessing how well the firm is currently meeting the needs of its stakeholders. For example, what is the automobile firm's current relationship with its employees? How well is it attending to their needs? What, if anything, should be changed to make its relationship with the employees more compatible with the firm's overall mission and direction?

The last step in the stakeholder management process is the readjustment of corporate priorities to bring the firm in line with stakeholder interests. It is recognized that there may be competing claims among the stakeholders; the stockholders' interest in maintaining a high rate of return, for example, may conflict with the consumers' interest in providing safety features that could actually reduce the rate of return, at least in the

short run. But the goal of this final step is to develop an integrated corporate strategy that reconciles as many of the competing stakeholder needs with corporate priorities as is possible, or at least prepares the organization to address those that cannot be integrated and reconciled. The hypothesis supporting this goal is that creating compatibility between corporate priorities and stakeholder interests will produce a good "fit" between the firm and the external environment, and thus will increase the probability of the firm's profitability and survival.

AN EXAMPLE OF PUBLIC SECTOR STAKEHOLDER MANAGEMENT

In order to illustrate the potential usefulness of stakeholder management for the public sector executive, we will describe how a commissioner of education, who was the chief executive officer of a state department of education, applied the principles of stakeholder management.

As the governor's political appointee, the commissioner had been given the mandate to promote "excellence in education." She defined that charge to include making fundamental, statewide changes in the educational system, which she called "Restructuring Education." Restructuring meant redefining the roles of teachers, students, parents, and administrators. More decision-making authority than in the past would now be delegated to parents, teachers, and students at the school site level, with fewer mandates given to the state legislature and district offices. In order for this decentralization to be implemented, student achievement levels would have to be measured regularly, and teachers would have to be more accountable than they were in the past. These and other proposals were part of the restructuring

package which the commissioner hoped to present to the legislature.

The commissioner spent much of her first year in office turned outward toward the various stakeholders in the environment. As one of her first objectives, she planned visits by herself and her assistant commissioners to every district in the state within the first year. She wanted to see for herself the status of district education, and she planned to introduce her restructuring campaign where she felt it needed to be implemented first—with educators at the district level.

The commissioner's state-wide outreach program also included active involvement with the formal education establishment. She designed task forces, advisory councils, and forums in order to elicit educators' opinions, and to enlist their active support for the proposed changes. In addition, a state-wide survey collected relevant information from 250,000 people, and at town meetings people voiced their opinions on a variety of subjects, including testing, curriculum development, and the restructuring of education. The commissioner anticipated using this information to bolster her advocacy of educational reforms in the legislature.

Despite this considerable effort to build working relationships with her external constituency (or perhaps because of it), the commissioner's efforts to make changes during her first year of office began to meet with resistance. Her reorganization of the department, the first major overhaul in more than a decade, led to complaints from those in the department, and from the department's key constituents, that the commissioner was moving too fast. Challenges to her restructuring efforts were mounting among the traditional educational establishment. During the budget review process, the finance department blocked her change programs, calling them too costly in a period of fiscal restraint. And

legislators were preparing their own initiatives for educational innovation, which they intended to introduce in the next legislative session. How was she to build support for her restructuring efforts in this political context?

STAKEHOLDER AUDIT

In order to help the commissioner clarify her goals and deal with the growing resistance she faced to her educational restructuring plan, we suggested a stakeholder audit. The audit that we designed for the commissioner consisted of seven basic steps, as illustrated in Exhibit 2. The commissioner was presented with seven questions regarding the educational system's stakeholders; by answering these questions she would complete the stakeholder audit. The questions were as follows:

1. What are the key stakeholder groups that are affected by or can affect the policies and programs which you are attempting to introduce?
2. What is the stake of each group?
3. How have the stakeholders behaved in the past and what coalitions are likely to form around the issue of educational restructuring?
4. What is the resource power of each stakeholder group and its potential coalitions?
5. How effective have your strategies been in the past in dealing with the various stakeholder groups?
6. What new strategies and action plans do you need to formulate in order to deal effectively with each stakeholder group and coalition?
7. How effective have your new strategies been?

Who are the stakeholders? Before the commissioner began to identify her stakeholders, she had to decide what to put in the

Exhibit 2

STEPS IN THE STAKEHOLDER AUDIT

1. Identification of key stakeholders and drawing of the stakeholder map.
2. Determination of stakeholder issues, concerns, or stakes.
3. Review of past stakeholder behavior in order to assess the likelihood of coalition formation.
4. Estimation of resource power for each stakeholder and coalition in order to determine its ability to take action.
5. Assessment of the relevance and effectiveness of current strategies for dealing with the stakeholders.
6. Formulation of new strategies, if necessary, to manage stakeholder relations, including the development of action plans for each coalition or stakeholder group.
7. Review and evaluation of the effectiveness of stakeholder management strategies, with updates and revisions planned as needed.

center of the stakeholder map. The choice is a critical one in any audit, since the person, group, or entity at the center of the map becomes the focus of the audit. There were a number of possible options in this case, as there would be in any audit: the department of education; a specific policy or issue; a subunit of the organization (i.e., the cabinet); or the commissioner herself. We decided to place the commissioner's program of change, "Restructuring Education," in the middle of the stakeholder map. This choice put the focus on the commissioner's ideas rather than on her as a person. There are occasions when an individual's personal performance and effectiveness should be assessed; but in this case we felt that the commissioner's ideas were the most controversial aspect of her administration, and that they, therefore, should be at the center of attention.

On her initial audit attempt, the

commissioner listed 37 groups that fit her definition of stakeholder. After each group was identified, it was positioned on the map around the center issue of educational restructuring. Working with 37 groups would have been cumbersome, however, so we decided to leave the first session of the audit with the objective of reducing the number of stakeholders.

We opened our next meeting with the commissioner with suggestions on how to categorize the stakeholders into larger, more general groups. After some deliberation, the commissioner agreed that with nine groups, the stakeholders' diverse interests were still represented, but all the groups could be analyzed with a reasonable investment of time and effort. Exhibit 3 illustrates the final stakeholder map.

What is the stake of each group?

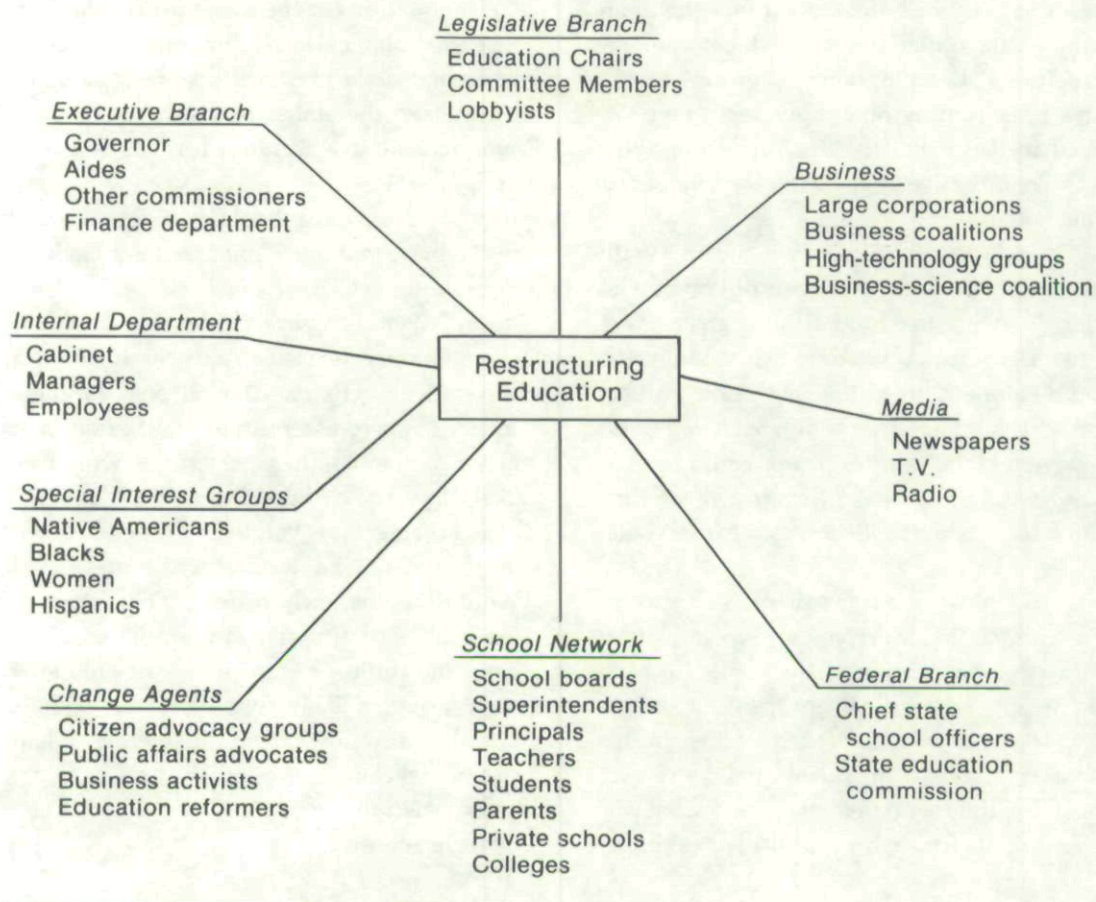
The commissioner arrived at our next meeting with a description of the stakes for each of the nine stakeholder groups. Our discussion focused on where each of the groups stood on the issue of educational restructuring. Were they for or against it, and what was the rationale for their position? For example,

the governor put a high priority on education. He viewed educational innovation as the foundation for the state's growth and future technological development. He therefore had a high stake in educational restructuring. Ultimately, the stakes for each group were summarized, in a narrative format, as shown in Exhibit 4.

How have the stakeholders behaved in the past, and what coalitions are likely to form around the issue of educational restructuring? Our next several meetings with the commissioner focused on a discussion of past stakeholder activity. The purpose of these sessions was to ascertain to what extent and in what manner the nine groups would be likely to form coalitions around the restructuring theme. How had these groups behaved in the past? Did natural coalitions exist? Would they be likely to form? This stage of the audit is particularly important because it helps the auditor to anticipate not only how each group is likely to respond as a single unit, but also how, given the interdependencies of stakeholder groups, the groups might be expected to operate as a like-minded network in the future.

"The [stakeholder audit] helps the auditor to anticipate not only how each group is likely to respond as a single unit but also how, given the interdependencies of stakeholder groups, the groups might be expected to operate as a like-minded network in the future."

Exhibit 3
THE COMMISSIONER'S STAKEHOLDER MAP



These discussions led the commissioner to identify two broad coalitions that were forming around her restructuring plan: one that supported her program of restructuring, and one that favored the improvement model instead. Mainline educators were in the improvement group. They included most school board members, superintendents, principals, teachers, and their representative organizations. They saw restructuring as a threat to their control over students and to their decision-making power. They preferred to press for increased funding and supported

making incremental improvements without changing the educational system's basic structure.

Those who were likely to support some form of educational restructuring were a collection of business leaders, citizen groups and their advocates, academics, taxpayers, the governor, reform-minded educators, and legislators. Not all had the same orientation toward change (some wanted more radical change than others), but most were convinced that the educational establishment was not capable of change from within. Re-

Exhibit 4

EXAMPLES OF STAKEHOLDER STAKES

1. The governor had spent considerable "political capital" to put the commissioner in office. Education was a high priority for him. He believed that a strong system of public education would strengthen the state's business climate and prepare young people for the technological changes coming in the 21st century. He counted on the commissioner to introduce innovation and to set and meet ambitious goals.

2. Among the offices of the executive branch, the finance department was a very important stakeholder in the restructuring process. As the "keeper of the keys," it had a stake in cutting costs and ensuring accountability. Budgetary restraint was the watchword. The finance department championed the ideas of educational reform but only within the confines of the current expenditures: it opposed major increases in aid to education. It was highly unlikely that any educational reform would be supported by the department unless it won the finance commissioner's approval.

3. The business community worried about the growing competition among states for new businesses, plant locations, and jobs. Excellence in education was perceived as a factor that could tip the scales in the state's favor and attract new companies. Thus the business community generally supported the restructuring program. One business association sponsored a major independent study to evaluate the state's educational system and to recommend changes for the future.

4. The traditional educational establishment, although by no means homogeneous in its viewpoint, generally preferred incremental reform to the radical restructuring of education. It favored the "improvement" model of education: Retain the present structure and provide more dollars to improve the current services. The teachers' unions were an example. They declared, "Give us more money and we'll improve the quality of education. We don't need radical change." School boards and superintendents, as a whole, also favored change that maintained the historic balance of power and secured their place at the top of the school district's decision-making chain.

5. The change agents, a loose coalition of academic, business, civic, and private groups, had a different agenda. Their primary goal was a complete redesign of education that included a change in the core assumptions and premises on which the educational system was based. They advocated competition among schools for students and programs, accountability for teachers and students, much greater parent/student choice in educational decision making, and alternative opportunities for entrepreneurial teachers to "sell" their services to districts. They were strong supporters of Restructuring Education.

6. Legislators were also a key stakeholder since any restructuring required legislative approval to transform innovative proposals into law and provide the necessary funding. There was also a strong commitment to quality education among legislators, especially those on the education committees. However, the legislators had formulated their own agenda for educational reform, which they intended to introduce in the next legislative session.

structuring rather than improving education became their byword.

What is the power of each stakeholder group and coalition? We had now identified the two major coalitions forming around educational restructuring, and our deliberations during the next meeting with the commissioner turned to questions of

power. To what extent did the coalitions have the power to block restructuring or to support it? The assumption at this point in the audit was that the commissioner's strategy choices and the successful implementation of her strategies would depend to a great degree on the power of opposing and supporting groups and coalitions and their willingness to

exercise that power. If those who were opposed to educational restructuring had little power, the commissioner would be likely to make bolder attempts at change. If, on the other hand, the restructuring advocates had little power, she would probably take a more cautionary approach in implementing reform.

What constitutes power varies from situation to situation. In the present context, four dimensions defined resource power among the stakeholders. The first dimension was *stakeholder access* to key decision makers. Given the statewide political arena, those who had access to the governor, his executive staff, and key legislators had critical leverage in the decision-making process. They had contact with the formal authorities who were charged with the responsibility of formulating policy and implementing it. A second dimension, *stakeholder credibility*, also improved a stakeholder's access to the policy makers and agenda setters. If a stakeholder had expertise in education, a history of commitment to educational improvements, and good contacts among the major stakeholders, the chances were good that the stakeholder could gain access to those in authority. *New ideas and policy alternatives* make up a third dimension of stakeholder resource power. The debate over education for the 21st century needed the infusion of new ideas and

creative alternatives to solve current and future problems. Those stakeholders who had viable alternatives for improving education and meeting the challenge of change were in a better position to be heard. The fourth dimension of stakeholder power was *resource control*. A group that possessed money, time, and people committed to an issue would be able to champion its cause or defend its position effectively.

The commissioner rated each stakeholder group on the four dimensions (access, credibility, ideas, and resource control); each group was given a high, medium, or low resource power rating on each of the four dimensions. Groups with high resource power received a rating of 3; groups with a medium, a 2; and groups with a low rating on resource power received a 1. All the groups' ratings on all four dimensions were totaled; the stakeholders with the highest numbers were those with the greatest resource power. The same procedure was repeated for the two coalitions that were forming around the restructuring issue.

The results of this power analysis revealed that the stakeholders and their coalitions were very closely matched. Those in the improvement coalition had the support of teachers, who were perceived as the "most powerful lobby in the state." Their unions had a history of delivering the votes when necessary and "getting out the troops" to mobilize vast resources to affect the course of educational policy making. On the other hand, the coalition in support of the commissioner's restructuring plan had the governor's backing, the corporate community's support, and the apparatus of the executive branch of state government at its disposal. Both coalitions had access to the policy makers; both had resource control, and credibility; and both had new ideas for education, although those who supported restructuring of education led their opponents on this dimension.

And given the evidence assembled, both were likely to exercise this power in the debates over educational restructuring.

How effective are our current strategies for dealing with the stakeholders? The goal of our next session with the commissioner was to identify the current strategies, implicit or explicit, that were being used in dealing with various stakeholder groups and coalitions, and to assess their level of effectiveness. As a professional educator with a good sense of humor, the commissioner was willing to assign grades of A,B,C,D, and F to the strategies that she and the department had developed for dealing with the various key stakeholder groups.

Using this process, the commissioner first identified those strategies whose effectiveness she believed deserved a grade of "C" or below. For example, the employees in the department of education felt threatened when they were faced with a major organizational redesign and change, and when they witnessed the removal or demotion of their top department administrators. Many did not fully understand why the changes were needed or how the changes would improve department functioning. Many resisted the commissioner's attempts to change the role of the department from one of public policy implementer to one of policy initiator. Unfortunately, moreover, the time which the commissioner spent on district visits was time not devoted to developing a shared vision of what the department's mission was to be and how the department's employees were to take part in the restructuring effort. As a result, not enough attention was paid to designing a new organizational structure that would be compatible with the restructuring goal, and to preparing the organization's members for their roles and responsibilities.

What types of new strategies and action plans are necessary? The challenge at this step of the audit was to decide to what extent

stakeholder interests were to be integrated into the agency's priorities and plans for the future. If major stakeholders were resistant to the department's major restructuring goals, and had the power and willingness to block them, what should—and could—be done? Should the goal of educational restructuring be abandoned, or modified to make it more palatable to recalcitrant stakeholders, or should additional strategies be developed to deal with stakeholder resistance?

In response to these questions, the commissioner developed what we eventually referred to as a "bridging strategy." The audit and the power analysis convinced her that she and the department needed to take on the role of system-wide integrator, attempting to bring together the various factions so that a coherent policy of educational change could be forged. The commissioner was a self-proclaimed "change agent" whose goal was to restructure education; yet she believed that few substantive changes in education would occur without the support of traditional education groups such as teachers and administrators, their backers in the department of education, and the legislature. Moving too fast, she now realized, would alienate these key stakeholders and intensify their resistance to her program. Moving too slowly, however, would amount to bowing to the

pressures of a strong bureaucracy that preferred to maintain the status quo.

This new bridging strategy also fit the commissioner's style, which she called "consensual and participative." She firmly believed that it was important to take the time to listen and appreciate alternative views, incorporate others' ideas whenever possible, build a wide base of support before taking action, and be patient as people absorb the change in "their hearts and minds."

The commissioner was well positioned to act as the bridge between the two major coalitions forming around restructuring. She knew education well, and was developing a good base of support among the citizenry and within the educational community. She also had good relations with the change agent, the stakeholder group which saw her as a major avenue of educational reform. She recognized that by playing the role of bridge, she might not be able to implement restructuring quickly; but she also recognized that achieving gradual changes in the desired direction would be better than passing innovative legislation and having it sabotaged during implementation. She would aim to devise mechanisms that could bring together the two coalitions to create a common vision and purpose.

Task forces that would bring together multiple stakeholders seemed like a good choice. There were precedents for them not only in the educational community, but in other policy sectors as well. The state's political climate and history supported collaborative efforts to build a consensus among constituent groups, and the commissioner, who had the power to appoint members, could ensure that major stakeholders were represented. She could use the vehicle of task forces to implement the bridging strategy whenever she deemed it appropriate.

For example, at the governor's request, the commissioner pulled together a

task force of all the major stakeholders for the purpose of creating a visionary proposal for state education. This task force was instrumental in setting the stage for the passage and implementation of some very innovative legislation—the first "statewide choice legislation" in the country. Although the process was difficult and often charged with conflict, the coalition of stakeholders was able to forge a consensus on state educational policy that withstood the test of the legislative process. The bridging strategy thus enabled the commissioner to walk successfully the fine line between the constituents who wanted improvements in the current system and those who demanded its complete redesign.

How effective are the new strategies?

The final step in the audit is frequently one of the most difficult to complete. Judging the effectiveness of any strategy can be problematic, but it is particularly challenging in government—where effectiveness measures, even if they can be agreed upon, are sometimes hard to link directly with an agency's or an individual's initial strategy.

Evaluation of the commissioner's strategies took place over a four-year period. During this period, we collected interview and survey data from the various stakeholders who were asked to evaluate the effectiveness of the commissioner's strategies. We also tracked educational initiatives and legislation; observed meetings, press conferences, legislative hearings, and task forces; and developed archival records from local, state, and national newspapers, reports, and hearings. We compiled a composite of quantitative and qualitative data from which to draw conclusions about the commissioner's strategies and their effectiveness.

Evidence to date suggests that the commissioner's bridging strategy was effective in bringing the two opposing groups together. There were times when the bridging strategy appeared doomed to fail: The advo-

cates of restructuring criticized her for moving too slowly and siding too often with traditional educational groups, and the opponents of restructuring criticized her for moving too quickly and being too closely aligned with the agents of change. Paradoxically, the fact that each group accused the commissioner of siding with the other is perhaps the best testament to her fairness and evenhandedness, and of the success of the bridging strategy.

THE STAKEHOLDER AUDIT PROCESS

Conducting a stakeholder audit is a challenge. Not only is answering the seven questions both difficult and important, but deciding how to conduct the audit itself is equally difficult and important. This section of our article will identify some of the more salient issues we confronted in conducting the audit with the commissioner. These issues are also applicable to others who may wish to consider a stakeholder audit for their organization.

Before embarking on the audit, the executive needs to determine his or her level of commitment to the process. Drawing the commissioner's stakeholder map alone, for

example, took approximately two hours—in addition to the hours it took to reduce the 37 stakeholder groups to nine broad categories, and then to answer the remaining questions. How much time does the executive have to devote to the stakeholder analysis? How committed is he or she? The audit questions were not, and probably should not have been, answered at a single sitting. We conducted the audit over a period of several months, and the commissioner took ample time to consider each question thoughtfully.

The executive needs to decide, moreover, how often the audit should be conducted. Choices range from considering the audit as part of a continuous process used for formulating, implementing, and evaluating strategy; to scheduling it only when a major change in strategy is being contemplated.

Other questions, concerning the logistics of the audit, also need to be addressed. Who should be involved in the audit, and in what capacity? Should organization outsiders conduct the audit? If it is conducted internally, how much of the exercise can be delegated to others, and how deeply must the executive be personally involved? The commissioner chose to answer the audit questions herself, with our assistance but without the

"The commissioner seemed well positioned to act as the bridge between the two major coalitions forming around restructuring. . . . The objective would be to devise mechanisms that could bring together the two coalitions to create a common vision and purpose."

aid or participation of other members of her department. Given the sensitive nature of some of our discussions, and the competing demands on employee time, she felt it would be best to limit department involvement. However, when it is used as a mechanism to develop an agency's mission and strategies, the audit can help people throughout the agency to share information, generate ideas, and build commitment—all of which are critical to the successful implementation of a new strategy.

Other questions center on the data themselves. What type of data should be collected, and how should they be collected? Should data be taken from archival records such as newspapers, stakeholder reports, or interviews; or should individuals (and which ones?) just make their "best guess" as to what stakeholder concerns may be? What kind of information, and how much of it, is necessary for accurate assessments of the nature of the stakes, the potential for coalition formation, or the effectiveness of strategies? The answers to these questions depend in large measure on the number of people involved in the audit, their ability to empathize with stakeholder concerns and be self-critical, and the level of resources committed to the exercise. Options range from assigning groups or individuals from either outside or within the agency the task of collecting data from every conceivable source, to having one person

supply best guess estimates. The latter alternative was selected in this case because the commissioner was quite familiar with the major stakeholder issues, and because of constraints on agency members' time and resources.

An issue that is closely related to that of data collection is how the data, once collected, will be reduced to some manageable form for analysis. An enormous amount of information can be generated in a very short period of time. How can it be reduced in order to simplify the analysis without the loss of the essential points? In the commissioner's case, working with nine categories of stakeholders rather than with 37 made analysis much easier, and yet little was lost in terms of the recognition of major stakeholder concerns. Organizing and structuring data in new ways helps reveal previously hidden patterns and themes. For example, creating a matrix to assess the power of stakeholder groups helped the commissioner to estimate the likelihood of success with the goal of educational restructuring. The finding that the two coalitions were fairly evenly matched in terms of power suggested to the commissioner that strategies geared toward achieving "radical" change would be less successful than those leading toward a more moderate restructuring effort.

The final issue to be considered here is strategy evaluation. Who should conduct the evaluations, and how formal should they be? Should the commissioner simply give her best estimate of how well the strategies are working, or should some independent group be called in to conduct the last step of the audit? Both of these options have advantages and disadvantages. Independent evaluations can be expensive and time-consuming—but the data they provide are free of an organizational bias. On the other hand, it is useful to have an evaluation component built into the organization in the event that a more immedi-

ate response is required. An organization with a monitoring process is in a better position to pick up advance warnings and change strategic direction if that becomes necessary. We combined the two approaches in evaluating the commissioner's audit.

An additional challenge of strategy evaluation is determining the criteria by which strategies are to be assessed. For the commissioner's purposes, potential criteria were the enactment of legislation, increases in budget expenditures, and the level of complaints and opposition from stakeholder groups. In this case, we used all three criteria, and decided on this basis that the bridging strategy had been effective. Which criteria are used depends on the strategy pursued and its particular context.

Another related issue is how much time should elapse before strategies are declared effective or ineffective. Our evaluation spanned four years; and a shorter evaluation might have yielded different results. The number of stakeholder complaints and the level of dissatisfaction varied during the evaluation period, as did budget allocations being made to the department of education and the number of restructuring laws being passed in the legislature. Consequently, there were times when the commissioner's strategies looked problematic. This was especially true of the bridging strategy. Each coalition saw it as helping the other and it sometimes seemed that rather than building a consensus among them, the commissioner was alienating all the stakeholder groups. But at what point should the final determination be made? Conflict marked the deliberations within the task force, especially as the time drew near to deliver a visionary proposal to the governor. Queried after the first legislative session without much enacted legislation to show for their efforts, many stakeholders voiced disappointment in the outcomes and the work of the task force. In the following

year, however, after some critical restructuring legislation had passed, many stakeholders were willing to credit the task force for its contribution to the development and enactment of the innovation laws. Ultimately, then, the question is what to do when faced with a setback. Should strategies be revised, or should greater efforts be made on their behalf? If they are not working, or if they are working with some stakeholders and not with others, at what point should they be reformulated or replaced?

Questions of timing are basically questions of subjective judgment, and for this there is little guidance in the audit process. Perhaps the key is to be sure that the questions are asked and that one remains open to the possibility that the strategies will have to be modified or even rejected as events unfold and unanticipated consequences result. Caution should also be exercised in making the determination of whether the strategies that have been pursued are the direct and sole cause of the outcomes identified. For example, developing the innovative legislation which eventually was passed required the collective efforts of many individuals and groups over an extended period of time. The commissioner's bridging strategy was only one factor among many that played an important part in the policy innovation process. It would be hubris to suggest otherwise in such a complex system as state government.

LESSONS LEARNED

Although it is difficult to trace the effectiveness of particular strategies, it is easier to identify with certainty the lessons which the commissioner learned from the stakeholder audit. Some of these lessons have already been discussed in the previous section; we will conclude with observations of a more personal nature. Our presentation of these learning points may suggest how others might find a stakeholder audit of value in their current or future situations.

The commissioner's initial insight from the audit came when she saw the extended stakeholder map for the first time. The extensive network of relations of which she was a part overwhelmed her in the diversity, number, and interdependence of its members. She had not been prepared for such complexity, and attributed some of the difficulties she had been experiencing during the first year to her lack of understanding of key stakeholders and their concerns. Drawing the map helped her to see who and what she had to take into account in order to succeed in achieving the restructuring goal. The map also helped her to formulate what her role in the intricate web of associations would be: a system integrator, or "peacemaker," who would attempt to bridge the divergent interests of multiple stakeholders at the same time that she was pressing for the visionary changes she felt were essential for the future. She walked a very fine line between system maintenance and system change; the audit would help her to cope with the challenges that she would inevitably face.

The commissioner also became aware that by moving from the position of district superintendent to that of commissioner of education, she had actually reduced rather than increased her autonomy. As a superintendent, she had felt that she had much more power to set direction for the school

district than she felt she had now. Her current position as a politically appointed commissioner was akin to that of a school principal, who looked to a superintendent for direction much as she now looked to the governor. For those executives who change their level of management, this is an invaluable lesson to learn, preferably sooner rather than later. While it is generally assumed that greater power and control devolve from higher office, in actuality just the opposite may be true. An executive has to share power with more and more powerful executives, peers, and members of the legislature as he or she ascends the organization's ladder.

Another valuable lesson which the stakeholder audit taught the commissioner was the importance of proactive management. As she completed the stakeholder map, the commissioner realized that she and her department were stakeholders in other maps. In fact, other stakeholders had their own strategies and action plans that did not necessarily coincide with hers. Unless she was proactive in managing her stakeholder relations, there was a good possibility that she would find herself working on someone else's agenda rather than pursuing her own.

The commissioner also learned the importance of practicing priority management rather than time management. Initially she was concerned with the toll her eighteen-hour workdays were taking on her personal life and her health. She came to realize, however, that she could shorten the workday by knowing what was important, who was important, and when things were important to attend to and when they were not. As the commissioner described the process, the stakeholder audit helped her to "put things in perspective" and focus on the "things that mattered." She was able to "step back and get out of herself" and view the larger picture. Her vision became more "holistic" in nature, and less clouded with details of the multitude

of problems that crossed her desk every day. Armed with this understanding, she was now freer to allocate her time and energy to those issues that made a difference.

Thus the stakeholder audit can be a powerful tool for the public sector executive, just as it is for the private sector manager, especially when he or she is embarking upon a major change effort. The forces which are unleashed during the change process are often

unpredictable and certainly difficult to contain. Without a compass such as the audit to help steer the course, the executive can easily lose direction and focus. The audit will not solve all the attendant problems of change—but it can help the executive to diagnose the situation; balance the many competing and valid interests which need to be addressed; and, ultimately, take action to accomplish the desired change.



SELECTED BIBLIOGRAPHY

Readers can find an in-depth examination of stakeholder management in Ed Freeman's book, *Strategic Management: A Stakeholder Approach* (Pitman, 1984). This very readable book primarily offers examples of private sector managers and organizations which employ principles of stakeholder management in the strategic management of their firms.

We recommend the following books for readers who wish to consider applying strategic management concepts and techniques to the public sector: Joseph L. Bower's *Two Faces of Management* (Mentor Books, 1983); Barry Bozeman's *All Organizations are Public* (Jossey-Bass, 1987); John M. Bryson's *Strategic Planning for Public and Nonprofit Organizations* (Jossey-Bass, 1988); and Philip B. Heymann's *Politics of Public Management* (Yale University Press, 1987).

Although rigorous tests of the stakeholder management model have not yet been developed, several public and nonprofit case studies indicate that stakeholder analysis can be useful as part of the strategic management effort. These include J.H. Allan's "A Case Study of the Ramsey County Nursing Service Strategic Planning Process, Plan B Paper" (School of Public Health, University of Minnesota, 1985); S. Klumpp's "Strategic Planning Booklet for the City of St. Louis

Park" (Minnesota, 1986); John M. Bryson, Ed Freeman, and William D. Roering's "Strategic Planning in the Public Sector: Approaches and Directions," in B. Checkoway's (ed.) *Strategic Perspectives on Planning Practice* (Lexington Books, 1986); and John M. Bryson and Robert C. Einsweiler's "Strategic Planning—Threats and Opportunities for Planners" (The Planners Press of the American Planning Association, 1988).

Also relevant are Nancy C. Roberts's "Transforming Leadership: A Process of Collective Action" (*Human Relations*, 38, 11, 1985); and Nancy C. Roberts and Paula J. King's "The Process of Public Policy Innovation" in Andrew H. Van de Ven, Hal Angle, and M. Scott Poole's (eds.) forthcoming *Research on the Management of Innovation* (Ballinger, 1989). The latter article by Roberts and King elaborates on the enactment and implementation of the nation's first statewide choice legislation, which is referred to in the body of the present article.

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